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ACTION EAP-00

INFO	LOG-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00	DINT-00
	DODE-00	ITCE-00	DATE-00	DS-00	EB-00	EXME-00	E-00
	FAAE-00	FBIE-00	UTED-00	VCI-00	FRB-00	H-00	SSA-01
	TEDE-00	INR-00	LAB-01	MOFM-00	MOF-00	VCIE-00	NSAE-00
	ISN-00	NSCE-00	OES-00	OMB-00	NIMA-00	EPAU-00	SCT-00
	ISNE-00	DOHS-00	SP-00	IRM-00	SSO-00	SS-00	STR-00
	FMP-00	BHG-00	R-00	EPAE-00	IIP-00	DSCC-00	PRM-00
	DRL-00	G-00	NFAT-00	SAS-00	SWCI-00	/003W	

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DEPARTMENT PLEASE PASS USTR, ELENA BRYAN AND GREG HICKS

DEPARTMENT PLEASE PASS TO DEPARTMENT OF LABOR

DEPARTMENT FOR EAP/MLS, EB, DRL

USDOC FOR 4431/MAC/AP/OPB/VLC/HPPHO

TREASURY FOR OASIA

E.O. 12958: N/A

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SUBJECT: UPDATE ON LABOR UNREST IN SOUTHERN VIETNAM

REF: HCMC 0031

**¶1. (SBU) SUMMARY:** Ho Chi Minh City's business community reports that operations following the recent wildcat strikes in HCMC and Binh Duong and Dong Nai provinces have returned to normal. Wariness remains, however, as some strikes continued even after the January 6 GVN decree announcing a 40 percent increase in the minimum wage for workers employed at foreign invested enterprises (FIE). Some strikes after the Lunar New Year (Tet) holiday involved workers already earning more than 40 percent above the old minimum wage who realized they would not get a raise or workers in Vietnamese-owned factories who do not benefit from the minimum wage increase. All the post-Tet strikes appear to be isolated incidents and generally have been non-violent. However, the strikes and their aftermath demonstrate the potentially fractious nature of labor relations in Vietnam and in particular the ineffectiveness of the GVN's sole labor union, the "Labor Federation." Concerns originally raised by FIE owner/managers about the inherent violence of the strikes, the complacency of local authorities in protecting FIE property, and the lack of consultation between the GVN and foreign business community, have not been addressed adequately and continue to be source of concern and uncertainty. END SUMMARY.

Background

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**¶2. (SBU)** December 28 - January 6 saw a rash of wildcat strikes in Binh Duong province, Ho Chi Minh City and Dong Nai province involving thousands of employees at as many as 16 foreign-invested enterprises (FIEs). The strikes began at shoe, textile and garment factories in Linh Trung Industrial Zone in Binh Duong and quickly spread to other companies outside the immediate area. The number of demonstrators and some violence grew at a rate that alarmed the Ministry of Labor and Invalids and Social Affairs (MoLISA), which announced January 6 that it would raise the base salary, or minimum wage, at FIEs by 40 percent to approximately 55 USD/month and stipulated that the base salary for skilled labor must be 7 percent above that. The salary increase took effect February 1.

After the Wage Increase

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**¶3. (SBU)** Immediately following the government's January 6 announcement, the strikes seemed to subside and production returned to normal. For example, Scancom, a Danish-owned company that suffered damage in a strike on January 6 (reftel), was shut down for several days after the strike, but is now functioning at normal capacity. In general, U.S. manufacturing interests in southern Vietnam have been less affected by the wage increase than their Taiwanese and South Korean counterparts

because salaries at many U.S.-owned/managed companies were already above the new minimum wage level. Following the Lunar New Year or Tet (January 29–February 2), there were reports of smaller strikes at Vietnamese-owned companies by workers who misunderstood the decree and thought they too would get salary increases. (NOTE: There have been no reports of labor unrest at state-owned enterprises. END NOTE.) There were also some strikes by employees at FIEs who were upset when they realized that since their salaries already exceeded the new minimum wage level they would not benefit from the wage increase.

**14.** (SBU) The primary causes of the second round of strikes seem to be misconceptions over the wage increase, and some companies that escaped labor unrest in December–January because workers were being compensated well above the base salary have faced disruptive labor action after Tet. For example, on February 13, Theodore Alexander, a high-end furniture manufacturer that employs 6,000 people, was suddenly faced with workers demanding a 40% increase in salary because they saw workers at neighboring factories in Linh Trung Industrial Zone receiving an increase in salary. In fact, Theodore Alexander had raised its average wage seven months before the strikes to USD 100/month, well above the new minimum wage.

#### Strike Instigators?

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**15.** (SBU) While labor disputes are not uncommon in Vietnam in the month before Tet, the scope and volatility of this year's

strikes were somewhat greater than normal. Since then, there has been much speculation in the business community and even the foreign press (e.g. The Economist) as to the cause of these strikes. EconOff has not found evidence to indicate that "instigators" from outside the factories were planted to foment unrest. Factory managers have pointed to workers with reputations for being vocal or disgruntled as the leaders of strikes.

**16.** (SBU) During the initial round of strikes, local authorities were slow to respond to the labor unrest, even in cases where striking workers were damaging property. Since Tet, police have responded more quickly to strikes, though the nature of some of the response has been troubling. For example, at Theodore Alexander, approximately 30 workers were identified as instigators who initiated the February 13 disturbance. Local authorities helped halt the strike, and workers were informed of the circumstances regarding the salary increase at other factories and returned to work without incident the next day. However, authorities have also visited workers who participated in the strike in their homes to warn them against future activity and have even requested company t-shirts, so police could roam undercover amongst employees during lunch.

**17.** (SBU) Reports of widespread arrests following the strikes appear to be inaccurate. Vietnamese dissident Dr. Nguyen Dan Que, in an interview with Voice of America, alleged that authorities had arrested hundreds of strikers. According to ConGen sources, the police temporarily detained some demonstrators, but there have been no reports of mass arrests. (NOTE: Dr. Que told EconOff that he heard of the arrests from a relative, who read about it in a Taiwan online news source. END NOTE.)

#### Ineffective Communication

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**18.** (SBU) Many businesses lay the blame for the second round of strikes on local and central authorities and the Labor Federation. After announcing the wage increase January 6, there was no further effort made by the government to explain the decision and how it would affect workers, nor did the government reach out to business to ensure that information was disseminated clearly. Members of the Human Resources Committee of the HCMC American Chamber of Commerce discussed the continuing confusion over the FIE base salary decree and concluded that in those instances where both management and Vietnamese authorities worked jointly to explain the decree, workers were far more receptive to and understanding of the decision. Therefore, the committee suggested that interested parties lobby for more government involvement in raising worker awareness and understanding of labor legislation.

**19.** (SBU) COMMENT: The GVN wage increase served a purpose in that it quickly quelled a potentially explosive situation, and for the most part, order has been restored. While some Vietnamese see these strikes as positive expressions of greater freedom by workers, these strikes demonstrate two fundamental problems in Vietnam that the wage increase does not resolve:

- The only officially-sanctioned labor union, the Labor Federation, is ineffectual in dealing with labor concerns and labor disputes. Until there is a more effective mechanism to manage labor relations, strikes such as these could become more frequent as continued economic growth tightens Vietnam's supply of skilled and experienced workers.

- The government's capitulation to the demands of labor indicates that authorities either may not be able to control the population as tightly as they would like or chose not to do so in this case. At the same time, it could show that the government is willing to buy off workers at the expense of foreign firms in order to keep order and, in a larger sense, to maintain power.

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